

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-BANK)

STAFF REPORT

SUMMARY

Staff recommends the Board approve a two-year extension to the term of the contract between the I-Bank and Bond Logistix LLC (BLX) for arbitrage compliance services related to the Infrastructure State Revolving Fund (ISRF) Program and the State School Fund Apportionment Lease Revenue Bond (SSFB) Program. A sufficient amount remains encumbered by the contract to cover the costs anticipated to be incurred during the proposed extension, and no funding augmentation is requested.

BACKGROUND

Original Contract. The I-Bank Board approved a contract between BLX and the I-Bank on November 20, 2007 (BLX Contract). The BLX Contract, in the amount of \$47,450, was entered into, effective on March, 2008 and will expire on February 28, 2011. To date, \$30,200.00 remains unexpended under this contract. See Attachment A for the staff report dated November 20, 2007, and Resolution No. 07-34 for a further description of the need for services and scope of work.

The following chart identifies the BLX Contract scope of work as it pertains to rebate analysis reports, and the current status of those reports:

Scope of Work re: Arbitrage Reports	Status
BLX is to perform arbitrage rebate analysis reports as requested for the following series of ISRF and SSFB Bonds ¹ : <ul style="list-style-type: none">• ISRF 2004• ISRF 2005• ISRF 2008• State School 2005 Series A• State School 2005 Series B• State School 2008• State Schools 2010	9 reports have been completed to date. The IRS-required fifth year arbitrage calculation for ISRF Series 2005 Bonds is currently in progress. I-Bank staff anticipate requiring seven annual reports in each year of 2011 and 2012.

All work performed to date by BLX as authorized by the BLX Contract has been satisfactory.

¹ At the commencement of the BLX Contract, the I-Bank had issued five series of bonds that required rebate analysis services. As of the date of this report, one of those series was refunded, and two additional series of bonds have been issued, resulting in seven series of bonds that require rebate analysis services.

Proposed Extension of the BLX Contract. The United States Internal Revenue Code (Code) regulates the timing and manner of calculating arbitrage rebate liability for all tax-exempt bonds. The Code requires that arbitrage rebate analysis and calculation be conducted, at a minimum, every five years from the date of issuance and that any amount required by federal law to be rebated to the Internal Revenue Service be paid on a related five year schedule. In addition to the required fifth year arbitrage rebate liability analysis and report, it has been I-Bank's general practice to have BLX conduct an interim arbitrage rebate analysis in order to provide adequate planning to ensure that funds are timely set aside to meet the I-Bank's rebate obligation should that be necessary. To date, BLX has not identified any rebate liability due on any of the bonds mentioned above.

During the past six months, the I-Bank staff undertook a review of the I-Bank's arbitrage rebate compliance practices to gauge the appropriate administration of BLX's contract, ensure the appropriate funding of any rebate liability owed to the IRS, and to determine whether or not to extend the BLX contract or conduct a new request for qualifications process to select a new arbitrage rebate liability consultant. As part of that process, I-Bank staff consulted with large state and national issuers, including the California State Treasurer's Office. I-Bank staff found that it is common practice among bond issuers to procure yearly interim arbitrage rebate analyses in addition to the mandatory five year reports, and to contract for rebate analysis services for at least a five-year period, in order to obtain continuity of service over a five year reporting and rebate cycle.

BLX and I-Bank staff have determined that there is sufficient funding in the contract to cover costs for the anticipated scope of work to be performed over the next two years, in the event the BLX Contract is extended. For this reason, no contract funding augmentation or other contract amendment is deemed necessary.

Near the end of the extended BLX contract term, staff anticipates conducting a request for qualifications process for arbitrage compliance services, and making an arbitrage rebate consultant selection and contract recommendation to the Board at that time.

RECOMMENDATION

Staff recommends approval of Resolution 11-02 authorizing an extension of the term of the arbitrage compliance services contract (07-0001-B) with Bond Logistix LLC for two years, until February 28, 2013.

ATTACHMENT A

Staff Report dated November 20, 2007

November 20, 2007
Agenda Item 8.
Prepared by: Joel Tokimitsu

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-BANK)

STAFF REPORT

ISSUE: Staff requests the appointment of Bond Logistix LLC to perform arbitrage compliance services related to the Infrastructure State Revolving Fund (ISRF) Program and the State School Fund Apportionment Lease Revenue Bond (SSFB) Program and requests permission to enter into a standard agreement for three years of arbitrage compliance services in an amount not to exceed \$47,450.

BACKGROUND: The I-Bank serves as issuer and lender for the ISRF Program and issuer for the SSFB Program and must comply with federal tax laws, rules and filing requirements applicable to tax-exempt governmental bonds including, but not limited to yield restriction requirements and arbitrage rebate requirements for invested bond proceeds. If a yield reduction payment and/or arbitrage rebate installment payment is required for a bond series, the issuer must remit payment(s) to the U.S. Department of the Treasury and file a Form 8038-T with the IRS no later than 60 days after the end of every 5th bond year throughout the term of the bond issue. In addition to the analyses performed in each 5th bond year, an interim evaluation of invested bond proceeds for each bond series will be completed in the first year of the proposed standard agreement to determine the initial cumulative investment yield of each bond series. These interim evaluations will provide the I-Bank staff with a basis to more effectively manage the proceeds of each bond series in accordance with applicable federal tax rules. The need for additional interim annual evaluations will be determined upon completion of the initial cumulative evaluations, but it is likely that annual reports will at least be required for the ISRF Program.

On September 18, 2007, I-Bank staff issued a Request for Qualifications (RFQ) for arbitrage compliance services relative to bonds issued for the ISRF and SSFB Programs. An email distribution list for the RFQ was created from listings published in the Bond Buyer's Municipal Market Place (the Red Book) for arbitrage rebate firms and Internet search results from various queries for arbitrage rebate and arbitrage compliance. The RFQ was sent via email to 12 firms with a confirmed interest in receiving the I-Bank's RFQ for Arbitrage Compliance Services. The six firms identified below responded via email to the RFQ by the October 2, 2007 due date. No responses were received after the due date specified above.

- MuniFinancial
- Public Financial Management (PFM) Asset Management LLC
- Hawkins, Delafield & Wood LLP
- OmniCap Group LLC
- Bond Logistix LLC
- Chapman and Cutler LLP

A Review Committee evaluated each of the six qualified proposals relative to: (1) each firm's qualifications and experience applicable to providing arbitrage compliance services

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for state revolving loan fund or multi-participant bond programs and state lease revenue financings, (2) the competitiveness of each firm's fees and expenses and (3) the overall quality of each firm's written proposal.

The Review Committee unanimously selected Bond Logistix LLC (BLX) as the top finalist. Although the Review Committee believed each proposal clearly demonstrated that each firm could provide arbitrage compliance services at a satisfactory level, the proposal submitted by BLX offered the highest level of qualifications, experience and overall quality of services, as well as proposed the lowest fees.

EXPERTISE OF RECOMMENDED FIRM: BLX was founded in 1989 as Orrick, Herrington & Sutcliffe's (Orrick) Financial Services Group and was spun off as a wholly-owned subsidiary of Orrick in 2000. BLX currently has 73 employees, comprised of 59 professional consultants and 14 support staff in seven offices, including two in Los Angeles and San Francisco, and has stated that the firm has the largest and most diversified arbitrage consulting practice in the nation.

According to their proposal, BLX has prepared over 37,000 arbitrage calculations for over 14,000 bond issues associated with over 1,500 tax-exempt issuers and obligors. BLX oversees arbitrage compliance for the larger issuers in the state including the State of California (State Treasurer's Office), California Housing Finance Agency and the Department of Water Resources. The firm's experience with state revolving fund and multi-participant loan programs include arbitrage compliance services for the California Statewide Communities Development Authority, New Jersey Educational Facilities Authority and the Tennessee Municipal Bond Fund.

It is important to note that BLX currently serves as Investment Advisor to the I-Bank. In addition, Orrick currently serves as Special Counsel for the I-Bank, ISRF Program and as Bond Counsel for the State School Fund Apportionment Lease Revenue Bonds, Series 2005A, B & C. In context with these current business relationships, staff is not aware of any conflict of interest associated with the appointment of BLX as an arbitrage compliance consultant for the ISRF Program and SSFB Program.

RECOMMENDATION: Staff recommends approval of Resolution 07-34 to authorize the appointment of Bond Logistix LLC to provide arbitrage compliance services for a three-year term consistent with the scope of services in the RFQ. In addition, staff recommends that the Board authorize the Executive Director to enter into a standard agreement or other similar form of contract with BLX for arbitrage compliance services in an amount not to exceed \$47,450.00.

Staff Report dated November 20, 2007

RESOLUTION NO. 07-34

**RESOLUTION OF THE CALIFORNIA INFRASTRUCTURE
AND ECONOMIC DEVELOPMENT BANK APPOINTING
AN ARBITRAGE COMPLIANCE CONSULTANT**

WHEREAS, the California Infrastructure and Economic Development Bank (the "I-Bank") was established pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act (California Government Code Section 63000 et seq.), as now in effect and as it may be amended or supplemented (the "Act");

WHEREAS, the I-Bank issued \$51,370,000 par amount of Infrastructure State Revolving Fund (ISRF) Revenue Bonds, Series 2004 and \$52,800,000 par amount of ISRF Revenue Bonds, Series 2005;

WHEREAS, the I-Bank issued \$96,790,000 par amount of State School Fund Apportionment Lease Revenue Bonds, Series 2005A-C;

WHEREAS, the Act authorizes the I-Bank to engage the services of financial consultants to render professional and technical assistance;

WHEREAS, the ISRF Revenue Bonds, Series 2004, ISRF Revenue Bonds, Series 2005 and State School Fund Lease Revenue Bonds, Series 2005 are subject to arbitrage rebate, yield restriction and Internal Revenue Service filing requirements as defined by the federal tax rules applicable to tax-exempt bonds;

WHEREAS, on September 18, 2007, the I-Bank sent a Request for Qualifications ("RFQ") to 12 firms soliciting statements of qualifications to provide arbitrage compliance services for a three-year term for tax-exempt governmental bonds issued under the authority of the I-Bank for the ISRF and SSFB Programs and received six responses that were reviewed by staff of the I-Bank, who unanimously recommended the selection of Bond Logistix LLC;

NOW, THEREFORE, the Board of Directors of the California Infrastructure and Economic Development Bank does resolve as follows:

Section 1. The I-Bank hereby appoints Bond Logistix LLC for a three-year term to provide arbitrage compliance services consistent with the scope of services set forth in the RFQ. In addition, the Board authorizes the Executive Director to enter into a standard agreement or other similar form of contract with BLX for arbitrage compliance services in an amount not to exceed \$47,450.00 for the ISRF and SSFB Programs.

Section 2. This resolution shall take effect from and after its adoption.

ATTACHMENT A

Staff Report dated November 20, 2007

PASSED, APPROVED AND ADOPTED at a meeting of the California Infrastructure and Economic Development Bank on November 20, 2007, by the following vote:

AYES: Matteucci, Sheehan, Rosenstiel, Rice, Lopez

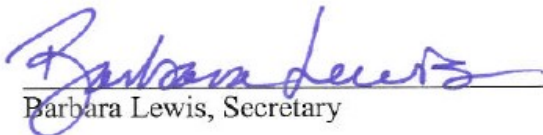
NOES: None

ABSENT: None

ABSTAIN: None


Stanton C. Hazelroth, Executive Director

ATTEST:


Barbara Lewis, Secretary